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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

APR 1 X 2003

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review – Streamlined	)	CC Docket No. 98-171
Contributor Reporting Requirements Associated	)	
with Administration of Telecommunications Relay	)	
Service, North American Numbering Plan, Local	)	
Number Portability, and Universal Service Support	)	
Mechanisms	)	
	)	
Telecommunications Services for Individuals	)	CC Docket No. 90-571
with Hearing and Speech Disabilities, and the	)	
Americans with Disabilities Act of 1990	)	
	)	
Administration of the North American Numbering	)	CC Docket No. 92-237
Plan and North American Numbering Plan Cost	)	NSD File No. L-00-72
Recovery Contribution Factor and Fund Size	)	
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

**REPLY COMMENTS OF AOL TIME WARNER INC.**

AOL Time Warner Inc., by its counsel, files these Reply Comments in the above-captioned rulemaking proceeding regarding reform of the methodology used to determine universal service contributions.<sup>1</sup> **At the outset**, the Commission should ensure that the universal service contribution methodology does not unduly impact Internet and high capacity services. Thus, while the Commission has stated it intends **to classify** wireline broadband services for

<sup>1</sup>*in the Matter of Federal-State Joint Board on Universal Service, Report and Order and Second Further Notice of Proposed Rulemaking*, CC Docket No. 96-45, et al., FCC 02-329 (rel. Dec. 13, 2002) (“*Second Further Notice*”).

universal service purposes in CC Docket No. 02-33' before considering whether and how connections that underlie broadband Internet access might be assessed under a connections-based contribution approach, the Commission should only finalize a new contribution methodology when it understands how it will impact the growth and usage of Internet and high capacity services. The Commission should also reject suggestions that the contribution base be expanded to include Internet Service Providers ("ISPs"); such a step would be contrary to the express provisions of Section 254 of the Telecommunications **Act**, poor policy and would impose unwarranted additional costs on the use of Internet access services by consumers. Finally, the Commission should expressly maintain its current limitations on the ability of carriers to pass-through amounts in *excess* of their contributions to customers

**1. THE UNIVERSAL SERVICE CONTRIBUTION METHODOLOGY SHOULD NOT UNDULY IMPACT INTERNET AND HIGH CAPACITY SERVICES**

Even though the Commission has stated that it will determine the regulatory classification of wireline broadband services before it considers how such services might be assessed for universal service contribution purposes under a connections-based approach<sup>3</sup>, the Commission must consider whether and how implementation of any of the proposals presented in the *Second Further Notice* would impact Internet and high capacity services, so as to preserve important incentives for innovative new services and investment in more efficient infrastructure. AOL Time Warner purchases a variety of telecommunication and telecommunications services in order to bring its services and content to consumers. **As** a large customer of such services, AOL Time Warner contributes indirectly to universal service through pass-throughs of universal

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<sup>2</sup> *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Universal Service Obligations of Broadband Providers, Notice of Proposed Rulemaking*, 17 FCC Rcd 3019 (2002) ("Wireline Broadband NPRM").

<sup>3</sup> *Second Further Notice* at ¶ 76.

service contribution charges. Increases in these pass-through amounts – currently over 9% – will ultimately impact the consumers of AOL Time Warner’s products and services, as production costs increase and/or prices are raised in turn. Thus, AOL Time Warner encourages the Commission to avoid any inadvertent adverse impacts on the growth and development of Internet and high capacity services by addressing the following concerns regarding the proposed contribution methodologies

*Definition of “Connections.”* The Commission proposes to define “connections” as facilities that provide end-users with access to an interstate public network, regardless of whether the connection is circuit-switched, packet-switched, wireline or wireless.<sup>4</sup> As AOL Time Warner has explained previously, the Commission should not require more than one connection per facility regardless of how many services are offered over that facility.<sup>5</sup> For example, customers should not be assessed for the local loop for voice and again for DSL or any other service that may be offered over the loop, as it would be both counterproductive and unfair to charge customers two or more times for the same loop. A line carrying both voice and DSL services does not establish two separate points of access to a public network. Most importantly, if the Commission were to impose an additional assessment on each derived service over the same facility, it could create a perverse disincentive to develop new services as well as needlessly complicate the connections-based methodology as new services are deployed, counter to the laudable goal of adopting a methodology that is fair, reasonable and readily understood by consumers.<sup>6</sup>

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<sup>4</sup> *Id.*

<sup>5</sup> Comments of AOL Time Warner filed April 22, 2002 at 9.

<sup>6</sup> *Federal State Board on Universal Service, Further Notice of Proposed Rulemaking and Report and Order*, 17 FCC Rcd 3752 (2002) at ¶ 8.

Likewise, the Commission should make clear that intermediate telecommunications facilities, such as those used for modem aggregation services, should not be defined as a connection.<sup>7</sup> For example, some carriers provide a service that aggregates dial-up Internet traffic at modem ports and delivers that traffic to an ISP via high capacity facilities. Neither the modem ports nor the facilities connecting the ports should be defined as a connection. At most, a connection should only include the telephone line the consumer uses to access the ISP and the high capacity facility used by the ISP to connect to the public switched telephone network.

*Capacity Tiers.* The FCC should also act to avoid skewing prices and creating inefficiencies for customers of high capacity services. All of the connections-based proposals would assess connections at varying amounts based on their classification into different capacity tiers.<sup>8</sup> AOL Time Warner shares the concern of several parties that the Commission's proposed capacity tiers, particularly for the highest capacity services, shift a greater contribution burden on high capacity business customers and could increase costs for high speed circuits, thereby encouraging some customers to purchase multiple lower speed circuits.<sup>9</sup> For example, dial-up ISPs often utilize T1 lines to provide services. Under the Commission's proposed capacity tiers, a T1 circuit would be assessed sixteen times the Tier 1 rate while three 512 kbps circuits would only be assessed three times the Tier 1 rate.<sup>10</sup> Thus, it could be more economical for customers to purchase a greater number of lower capacity circuits assuming, as is likely, that the carrier passes through fully its universal service contribution charges. As a result, the tier structure

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<sup>7</sup> Comments of Sprint filed February 28, 2003 at 16.

<sup>8</sup> *Second Further Notice* at ¶ 81

<sup>9</sup> See e.g., Comments of Sprint *supra*, at 11, Comments of WorldCom filed February 28, 2003 at 35, Comments of Ad Hoc filed February 28, 2003 at 11 and Comments of California PUC filed February 28 at 17. The Commission added a fourth tier for the highest bandwidth connections to the capacity tiers originally proposed by CoSUS. *Second Further Notice* at ¶ 82.

<sup>10</sup> See Comments of Sprint *supra*, at 11 and *Second Further Notice* at ¶ 82

could irrationally distort carrier pricing practices as well as customer purchasing decisions and encourage economically or inefficient choices simply to minimize universal service costs.

Reducing the assessments for the highest capacity tiers will minimize potential market distortions

**11. THE FCC MAY NOT EXPAND THE CONTRIBUTION BASE BEYOND THE LIMITS ESTABLISHED IN THE 1996 ACT**

Several commenting parties urge the Commission to broaden the contribution base to include ISPs, IP telephony providers, and providers of broadband Internet access services on the grounds such action will promote a sustainable universal service fund.<sup>11</sup> The Commission must reject these recommendations as contrary to the 1996 Act and sound policy,

As an initial matter, the FCC has made clear that this proceeding is intended to address the contribution mechanism for universal service among *recognized* providers of telecommunications and telecommunications services as well as carrier pass-throughs of universal service contribution charges to customers.<sup>12</sup> Indeed, the Commission specifically states that it is not proposing to assess directly ISPs, as originally proposed by SBC and BellSouth.<sup>13</sup> As for IP telephony services, the FCC has also made clear that proper regulatory classification will be based on a case-by-case determination.<sup>14</sup> Pursuant to Section 254(d) of the Telecommunications Act, contributors to universal service are specifically limited to interstate telecommunications carriers and other telecommunications providers. As such, unless and until

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<sup>11</sup> See e.g., Comments of Qwest filed February 28, 2003 at 2, Comments of SBC/BellSouth filed February 28, 2003 at 6, Comments of NTCA filed February 28, 2003 at 3, Comments of USTA filed February 28, 2003 at 10, Comments of Western Alliance filed February 28, 2003 at 15, Comments of NRTA/OPASTCO filed February 28, 2003 at 12, Comments of NASUCA filed February 28, 2003 at 7 and Comments of Michigan PSC filed February 28, 2003 at 7.

<sup>12</sup> As noted, the FCC has stated that it will address broadband Internet access in the *Wireline Broadband NPRM*.

<sup>13</sup> Second Further Notice at fn.181

<sup>14</sup> Federal-State Joint Board on Universal Service, Report to Congress, 13 FCC Rcd 1 1501 (1998) at ¶¶90-91

the FCC alters this approach, contributions will apply to IP telephony services only as the FCC reaches a specific decision in a particular instance.

Most importantly, as AOL Time Warner consistently has pointed out, it is well settled that ISPs, by virtue of their provision of information services, are neither carriers nor providers of telecommunications and therefore, pursuant to statute, cannot be required to contribute directly to universal service.<sup>15</sup> Notably, the Commission repeatedly has found that ISPs and their customers pay fully for the telecommunications services they use and are not getting a “free-ride” for use of the public switched telephone network, as some parties assert.<sup>16</sup> ISPs contribute significant amounts indirectly as high volume purchasers of telecommunications from incumbent and competitive local exchange carriers, interexchange carriers and other providers in the form of pass-through charges and rates that reflect universal service contributions.” Carriers are fully compensated for any costs incurred in providing telecommunications services to ISPs. Thus, there is no legitimate policy basis to justify including ISPs in the contribution base for universal service in contravention of the statute.

Indeed, there is no record evidence to suggest that including new entities in the contribution base will have any measurable impact on the burgeoning size of the universal service fund or that contributions by additional entities would reduce or check the growth of the fund itself.<sup>18</sup> AOL Time Warner shares the concern of many carriers and customers that the

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<sup>15</sup> *Id.* at ¶¶ 32, 66-72. See also Reply Comments of AOL Time Warner filed May 13, 2002

<sup>16</sup> See e.g., Comments of Western Alliance *supra*, at 15-17. See also Report in Response to Senate Bill 1768 and Conference Report on H.R. 3579, Report to Congress, 13 FCC Rcd 11810 (1998) at ¶ 22 (stating that “information service providers, which are not obligated by statute to contribute, will make no direct contribution; information service providers, however, will contribute significant amounts indirectly, as high-volume purchasers of telecommunications...” (“Second Report to Congress”))

<sup>17</sup> Second Report to Congress at ¶ 22.

<sup>18</sup> For example, Verizon states that removing DSL revenues from universal service assessments, combined with an increase in the wireless safe harbor and a collect and remit approach, would have a nominal impact on the size of the

growth of the universal service fund is alarming and is inflating costs for all parts of the industry.

This is of particular concern now as the industry is facing a critical economic challenge.

According to the FCC *Staff Study*, the current fund is over \$6 billion and will increase to over \$7 billion in 2007, even though two parts of the fund, the schools and libraries program and the nonrural high cost fund, are capped.” Merely expanding the contribution base will not address the need to manage the fund in an efficient and competitively neutral manner since none of the contribution methodologies under consideration will guarantee an infinite amount of support.

The long-term viability of the universal service fund will continue to be an issue unless the Commission begins to consider ways to meet the statutory principles yet responsibly contain and manage the future growth of the fund. Without effective management, incentives to avoid such costs and/or to game the system will undermine the sustainability of the fund. In addition, the Commission must ensure that recipients are using support in an efficient and cost-effective manner. In recent testimony before the Senate Commerce Subcommittee on Communications witnesses alleged that universal service support is being used by carriers for the purpose of gaining and/or maintaining a competitive advantage and not for providing affordable services to all Americans.<sup>20</sup> In fact, the FCC and others are currently investigating charges of fraud and

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fund and would, in fact, result in a decrease in the contribution factor under a revenue-based approach. See Ex Parte letter from W. Scott Randolph, Director – Regulatory Affairs, Verizon Communications to Ms. Marlene H. Dortch, Secretary, Federal Communications Commission, filed September 23, 2002.

<sup>19</sup> “Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies,” Public Notice, FCC 03-31 (rel. Feb. 26, 2003) at 5. The Universal Service Administrative Company recently estimated that demand for the schools and libraries program in funding year 2003 will be about \$1 billion lower than in funding year 2002. Demand for internal connections and telecommunications services has decreased while demand for Internet access has increased. See Letter from George McDonald, Universal Service Administrative Company to Mr. William Maher, Chief, Wireline Competition Bureau, Federal Communications Commission filed April 3, 2003.

<sup>20</sup> Compare, for example, written testimony of Mr. Carson Hughes, Telepax, Inc. and testimony of Mr. Matthew Dosch, Comporium Communications before Senate Committee on Commerce, Science and Transportation Subcommittee on Communications, submitted April 2, 2003.

abuse in the schools and libraries program.\*' Before entertaining suggestions about expanding the contribution base, the Commission must ensure that its universal service policies encourage the development of lower cost technologies and economic pricing of telecommunications services with the goal of reducing the amount of support necessary over time and are lawfully administered.

**11. THE COMMISSION SHOULD MAINTAIN THE PASS-THROUGH LIMITS IF A NEW CONTRIBUTION METHODOLOGY IS ADOPTED**

In its *Report and Order*, the Commission concluded that, beginning April 1, 2003, the Federal universal service line item charge must be limited to the amount of the contribution factor, may not include a mark-up to recover associated administrative costs, and must be recovered through a separate line item on the bill.<sup>22</sup> AOL Time Warner strongly supports these steps and urges the Commission to continue to require carriers to limit pass-through charges to customers to the amount of the contribution if a new contribution methodology is adopted. As the Commission correctly found, limiting the pass-through charges has many public interest benefits, including fostering billing transparency and decreasing customer confusion regarding the amount of universal service contributions that are passed through by carriers. Such benefits should be maintained regardless of the contribution methodology utilized for universal service.

**IV. CONCLUSION**

As set forth above, AOL Time Warner urges the Commission to consider carefully the full impact of the proposed contribution methodologies on the Internet and high capacity services, bearing in mind that the growth of the fund must be carefully managed to ensure that

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<sup>21</sup> See "Commissioner Abernathy Announces Public Forum on Improving Administration of E-Rate Program," Federal Communications Commission New Release (rel. Mar. 18, 2003).

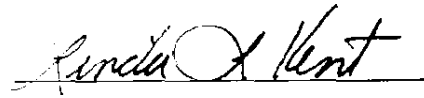
<sup>22</sup> Second Further Notice at ¶¶ 45-61.



*Reply Comments of AOL Time Warner Inc*  
*CC Docket No. 96-45*  
*April 18, 2003*

universal service is administered in a manner that is fair and equitable to both carriers and customers of telecommunications and telecommunications services.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Linda L. Kent", written over a horizontal line.

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April 18, 2003